The Foreclosure Crisis, Parent PLUS Loan Approvals, and Minority College Enrollment: Is There a Link?

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Abstract

The foreclosure crisis has not only pushed millions of families out of their homes but also created long-term strain on a household's financial standing. This financial strain makes it difficult for the head of household to receive additional credit to pursue opportunities for their family and for themselves. This paper explored, through trend and data analysis, the relationship between the foreclosure crisis and the Parent PLUS loans approval rates and the extent to which college enrollment for minorities has been impacted as a result. While there is research on the causes and effects of mortgage default on various demographic groups and the impact on school age children, this paper will contribute to said research by understanding the causal effects on the approval of student loans. The authors found that an increase in foreclosure negatively impacted Parent PLUS loan approval rates along with college enrollment of students attending private institutions.[1]

JEL Classification Codes: I 20, I 22, I 24, and I 31

Introduction

The foreclosure crisis has not only pushed millions of families out of their homes but also created a long-term strain on a household's financial standing. The literature has found that minorities, in particular African Americans, are financially vulnerable to the foreclosure epidemic due to the increase in subprime lending practices (Leigh and Huff, 2007). During the most recent housing crisis, the data has shown that foreclosures have significantly decreased the value of a home and thus the wealth of many American families (Moore and Brauneis, 2008). Additionally, the financial strain of foreclosures makes it difficult for the head of household to receive additional credit to pursue opportunities for their family and for themselves.

Families that have college-age students tend to face an additional obstacle—the decision to fund the ever increasing cost of higher education in the midst of a constrained budget due to the housing crisis. Many students seeking to pursue higher education often seek out financial aid through grants and loans. One option that parents pursue to assist in subsidizing their child's education is through the Parent PLUS (Parental Loans for Undergraduate Students) loan program. According to the Student Loan Network (2012), parents can borrow federal money to finance their child's undergraduate and graduate education. Loan approval is contingent upon a review of the parent's credit history. Those individuals with an adverse credit history is denied the Parent PLUS loan. "An adverse credit history is defined as being more than 90 days late on any debt or having any Title IV debt within the past five years subjected to default determination, bankruptcy discharge, foreclosure, repossession, tax lien, wage garnishment, or write-off (Student Loan Network, 2012)."

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Kanrowitz (2009) examined Parent PLUS loan denial rates and found that some college financial aid programs were implementing a stringent definition of the 90 day delinquency period as opposed to others. Some financial aid programs required a five- year review for a 90-day delinquency restriction, while others limit the restriction to the current 90 day delinquency. Based on Kanrowitz (2009) analysis of Parent PLUS loan data from the 2003-2004 and 2007-2008 school years, he found an increase in PLUS loan denial rates. He further predicted that the denial rates would most likely increase even more in 2008 due to the ongoing economic turmoil due to the housing crisis. This paper expands upon Kanrowitz's (2009) prediction by examining college enrollment data in states where African Americans and Hispanics were finally prone to the foreclosure crisis. The paper further examined selected states to evaluate fluctuations of Parent PLUS loan approvals based on whether the higher education institution was private non-profit, private for-profit, or public. Through this analysis of the data the authors expect to determine a link between the 2007 - 2009 foreclosure crisis and to which college enrollment has been impacted as a result.

Literature Review

The Foreclosure Crisis - Exploring the Financially Vulnerable Groups

Since the mid-1990s, African Americans and other low-income households purchased an increasing number of subprime loans (Leigh and Huff, 2007). Subprime loans reflect signs of predatory lending, and eventually the end result is foreclosure. The Center for Responsible Lending (2010) analyzed loans made in 2005-2008 to owner-occupants; they found that African Americans underwent 790 foreclosures per 10,000 loans compared to 769 completed foreclosures for Hispanics and 452 foreclosures for Non-Hispanic Whites. Their findings estimated that eight percent of the African American population lost their homes to foreclosure during the 2005-2008 time period.

Predatory lending plays an important role in the African Americans’ and Hispanics’ subjectivity to high-risk loans. Financial institutions looking to improve borrowers’ prospects of financing utilized the subprime market to facilitate this process. Moore and Brauneis (2008) explained that financial institutions used third-party brokers to offer nontraditional loans with loose underwriting standards. They also found that mortgage originators eluded the rules and created financial innovations that led to the decline in the housing market. Pennington-Cross and Ho (2010) discovered that subprime loans, primarily adjustable-rate and hybrid loans, contributed to the majority of subprime mortgage lending. During the early 2000s, financial institutions provided attractive mortgage rates with low interest to entice borrowers to finance larger home purchases with loans. The open provision to these loans lead to the delinquencies, defaults and foreclosures, which weakened the mortgage loan performance and ultimately the decline of the housing market (Moore and Brauneis 2008). Borrowers and lenders failed to maintain their subprime residential mortgage-backed securities (RMBS), so investors contributed less to the subprime market, thus creating the instrument that led to the destruction of the housing crisis bubble.

Within the mortgage market, Essene and Apagar (2007) analyzed marketing practices that encouraged borrowers to purchase mortgage products without any prior knowledge and lack of ability to repay the loans. Carr and Schuetz (2001) estimated that households, including African -American households and low-income households, wasted millions of dollars in subprime loans in which 35%-50% of the subprime borrowers could qualify for a normal prime loan. They saw that lenders depend on brokers to underwrite loans, but the incentive to charge borrowers more than what the lenders demand stems from profitability of mark-ups and premiums that lenders require the borrowers keep as a source of income.

Externalities from the Foreclosure Crisis

Externalities from foreclosures devastated the entire population, but the literature reveals it is significantly detrimental to minorities as the subpopulation. The effects of the foreclosure spillover result in a decline of wealth, educational attainment and various other psychological impacts (Lovenheim 2010; DesJardins et al. 2006; Center of Responsible Lending 2010). Families encountering foreclosures face the challenge of finding a good-quality education for their children and losing a high level of wealth that was once received through the ownership of a home. Been et al (2011) conducted a study in New York City’s public school system to measure the effects of the foreclosure crisis on students.

They found that high foreclosure-concentrated schools consist primarily of higher ratios of black students than other ethnicities as the quartiles of New York schools showed 56% of students were black, while only 31% of other students in the NYC public school populations were in foreclosure. Also, Been et al (2011) found that black students were more likely than white students to be negatively impacted by switching to a high-foreclosure concentrated schools. They discovered that socioeconomic changes posed more of a threat to the education status of the black youth than white. Results also demonstrated that students whose families underwent foreclosure tend to have a lower academic performance record. Been et al (2011) reported during the 2003 – 04 school year that origin and destination schools exhibited notably different test scores. Students who switched schools after a foreclosure ended, on average, were found to be in the lower percentile of math and reading scores.

College Enrollment Constraints

High school graduates with plans of attend college struggle with the issue of paying for it. DesJardins et al (2006) investigated the likelihood of a college freshman stopping school during their first year and returning during a later time period. They also found that students that had aid more readily-available were less likely to stop their scholastic process. To reduce the risk of the first stop out, every form of aid with an increase of $1,000 each in loans, merit aid, grant aid, and work/study support lowers the risks of having a first stop out by 26.2, 34.3, 21.9, and 17.8 percent, respectively (DesJardins et al., 2006). Stop out not only affects students, but it causes negative externalities for the colleges and parents as well. Because the state's allotment to public institutions has fallen, colleges have increased their tuition rates to fund the deficit (DesJardins et al., 2006). Whereas some families can afford the increased tuition, other families cannot pay the cost. With the decline in students' performance and financial aid for school, the prospects of a college education wane.

Additional research has explored the relationship between family housing wealth and college attendance. Michael Lovenheim (2011) investigated family resources and its causal effect on the decision to invest in a higher education. He found that constraints on parents' ability to pay for college limited a student's attendance. Families that cannot afford college are less likely to enroll their children. The Current Population Survey (CPS) reported that from 2000 to 2005, households with less income were less likely to have children that attend college. Larry Singell Jr. (2004) collected data to emphasize how financial aid relates to students—primarily low income students'—ability to stay enrolled at a large, public university. The government assists low-income students and well-to-do students through financial aid. Singell Jr says, "Direct public aid for college attendance in the United States has traditionally focused on low-income students rather than merit, although subsidized tuition at public universities is a significant indirect form of non-need-based aid" (p.460). Need-based students receive aid to stay in college, but that aid does not enhance college retention. Students who received need-based aid demonstrated higher rates of first-year retention, but that unsubsidized and merit-based aid from the government and universities may have lowered relative graduation, especially aid that requires immediate payment notes Singell Jr. (2004). Unless families can afford college, students will not be able to attend which lowers college enrollment. Philippe Belley and Lance Lochner (2007) concur with evidence that youth are currently more borrowing-constrained than in the 1980s due to the family's income. Conditions for students to attend college remain contingent on the financial status and financial constraints.

Data and Methodology

To explore the relationship between the foreclosure crisis and the Parent PLUS loan approval rates, it was pertinent to first identify which demographic groups were most adversely affected by the foreclosure crisis. From casual perusal of the literature, the authors found that African-Americans and Hispanics a the most financially vulnerable groups (Leigh and Huff, 2007, Center for Responsible Lending, 2010, Moore and Brauneis, 2008, Pennington-Cross and Ho, 2010, Essene and Apagar, 2007). The authors then used state demographic data on completed foreclosure from 2004-2008 to identify which states had the highest foreclosure numbers for African - Americans and Hispanics. Tables 1 lists the largest completed foreclosures for African-American and Hispanics against the corresponding total. From the completed foreclosure data provided by the Center for Lending, the states with the highest rates for both minority groups were then further studied. [2]

[2] It was determined that the states with the highest foreclosure rates for African Americans were Michigan, Georgia, and Florida; and for Hispanics were California, Florida, and Texas..

Table 1: State Rates of Completed Foreclosure, by Borrower Race and Ethnicity (2004-2008 Originations)

Completed Foreclosures			
	State Total	Latino Hispanic	African American
California	554,686	203,385	-
Completed Foreclosures			
Florida	247,757	78,043	30,970
Georgia	106,055	-	37,915
Michigan	178,572	-	39,835
Texas	147,150	34,335	-

Source: 2011 Center for Responsible Lending

From the selected states with the highest foreclosure rates for both minority groups, the college enrollment rates for each state and ethnicity were then analyzed. The college enrollment data was taken from the American Community Survey, provided by the U.S. Census Bureau. Once the annual Undergraduate and Graduate college enrollment rates from 2005-2010 were established, the percentage change in college enrollment was then computed to correlate with completed foreclosure rates.

The parent PLUS loan approval rates in 2004 and 2008 were provided by the National Center for Education Statistics. The approval rate for each applicable state was taken for both minority groups. From these rates, the overall percentage change in parent PLUS loan approvals were created. The percentage change in parent PLUS loan approvals were then used to correlate with the foreclosure rates and college enrollment rates. These rates were able to highlight the extent to which college enrollment has been impacted as a result of the foreclosure crisis which may dictate a household's Parent PLUS loan's approval rate and automatically affect a student's educational attainment.

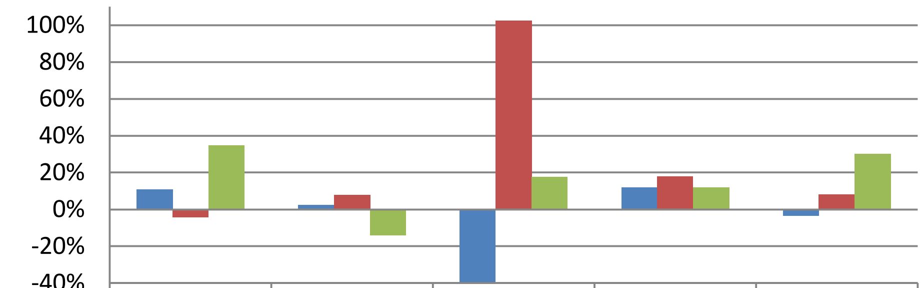
Results

Based on the foreclosure data provided from the Center of Responsible Lending, the authors found that the states with the highest foreclosure rates for African Americans were Michigan, Georgia, and Florida; and for Hispanics were California, Florida, and Texas. The results include undergraduate and graduate college enrollment data based upon race for the financially vulnerable foreclosure states of Georgia Michigan, Florida, California, and Texas.

Georgia

Tables 2 and 3 display the most glaring impact of the foreclosure crisis. During the 2007-2008 school year, African American college enrollment increased to over 102% from the 2006-2007 time period. The actual numbers displayed an increase in African-American enrollment from 109 thousand undergraduate and graduate students during the 2006-2007 school year to 220 thousand African-American students enrolling in the 2007-2008 school year. After the significant rise in college enrollment, the data reveals that African American college enrollment dropped to approximately 18 percent in 2008-2009 and 8 percent during the 2009 to 2010 school year. Table 7 shows that during the peak of the foreclosure crisis, college enrollment for African Americans in the state of Georgia drastically decline.

Table 2
Change in Undergraduate & Graduate Enrollment Rates



	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
White	10.95%	2.55%	-39.63%	12.12%	-3.34%
African American	-4.47%	8.00%	102.56%	17.80%	8.21%
Hispanic	34.88%	-14.04%	17.71%	12.02%	30.21%

Table 3 Georgia – Parent Plus Approval Rates for African Americans

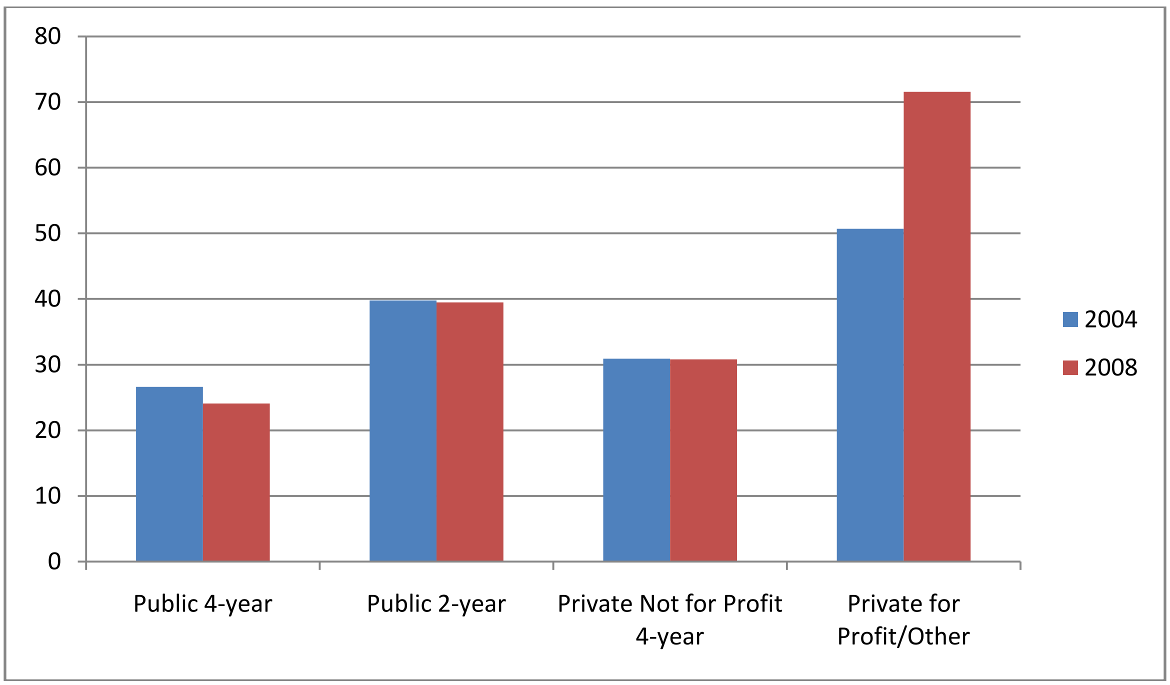


Table 3 shows that during the 2008 time period African Americans did not receive additional Parent PLUS loans among public and private not for profit institutions. The only institution that did increase the awards of Parent Plus loans was private for profit institutions.

Michigan

The African-American population in the state of Michigan experienced a substantial increase in foreclosures during the 2004 to 2008 time period. During this same, period Table 4 shows that college enrollment for the African American population declined.

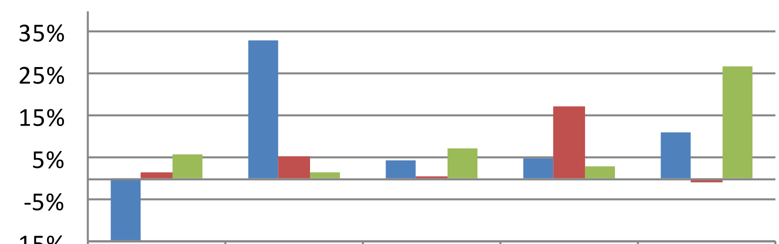
Table 4
Change in Undergraduate & Graduate Enrollment Rates

	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
White	10.95%	2.55%	2.40%	2.20%	-0.03%
African American	-4.47%	8.00%	9.66%	7.76%	0.49%
Hispanic	34.88%	-14.04%	18.38%	2.01%	26.20%

Florida

Like California, the state of Florida has been in the news regarding rapid foreclosures. The effect of foreclosure crisis on African Americans and Hispanics is evident in the state of Florida (Center for Responsible Lending 2004 -2008 database). According to Table 5, during the peak of the foreclosure crisis, College enrollment for Hispanics declined and then significantly increased during the 2009-2010 school year. African American experienced an increase during the 2008 -2009 school year but saw a -1.12 percent decline during the following 2009 -2010 school year.

Table 5
Change in Undergraduate & Graduate Enrollment Rates

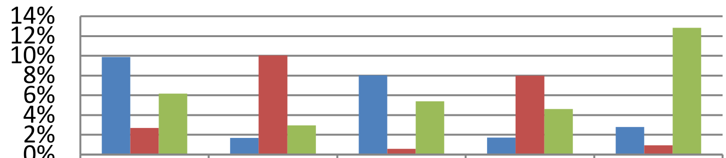


	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
White	-14.82%	32.92%	4.27%	4.61%	10.76%
African American	1.30%	5.19%	0.54%	17.36%	-1.12%
Hispanic	5.85%	1.57%	7.16%	2.80%	26.61%

California

Based on the Center for Responsible Lending 2004 to 2008 foreclosure database, the authors found a significant increase in foreclosures within the state of California for the Hispanic population. Table 6 displays U.S. Census American Community Survey college enrollment data based upon race for the years of 2005 to 2010. Overall, the college enrollment for Hispanics has increased from 2005 to 2009. Looking closer, one can see that during the peak of the foreclosure crisis in 2008 to 2009 there was drop in college enrollments for the Hispanic population. The decline went from 5.41 percent during the 2007-2008 school year to 4.61 percent during the 2008-2009 school year. After the 2008-2009 school year, the state began to receive an increase in college enrollment by Hispanics increasing to 12.84 percent during the 2009 to 2010 school year.

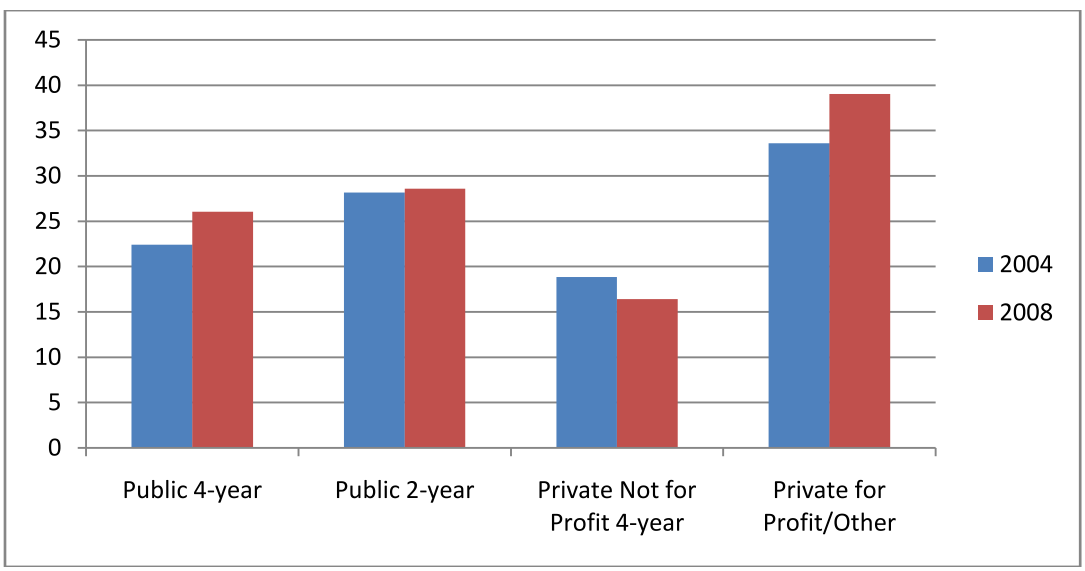
Table 6
Change in Undergraduate & Graduate Enrollment Rates



	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
White	9.88%	1.68%	8.01%	1.72%	2.80%
African American	2.71%	10.04%	0.60%	8.01%	0.93%
Hispanic	6.17%	2.94%	5.41%	4.61%	12.84%

Table 7 provides a more detailed picture of the Hispanic population college enrollment trends through the Department of Education's National Center for Education Statistics data base 2004 and 2008 Parent PLUS loan approval rates. The data reveals that the approval rating increased for Hispanics in all categories during this time period except for Private not for profit institutions. These findings support the understanding that the increase in public institutional enrollment for Hispanics increased in public institutions versus private non-profit institutions due to the lower cost of in-state tuition. With private for profit institutions, the enrollment of Hispanics continued to increase. Understanding the premise that private institutions' tuition costs are higher than public institutions, the authors question the motives of for profit private institutions. According to Government Accounting Office (GAO, 2010) study, it was found that for-profit higher education institutions engaged in fraudulent financial aid activities to increase college enrollment.

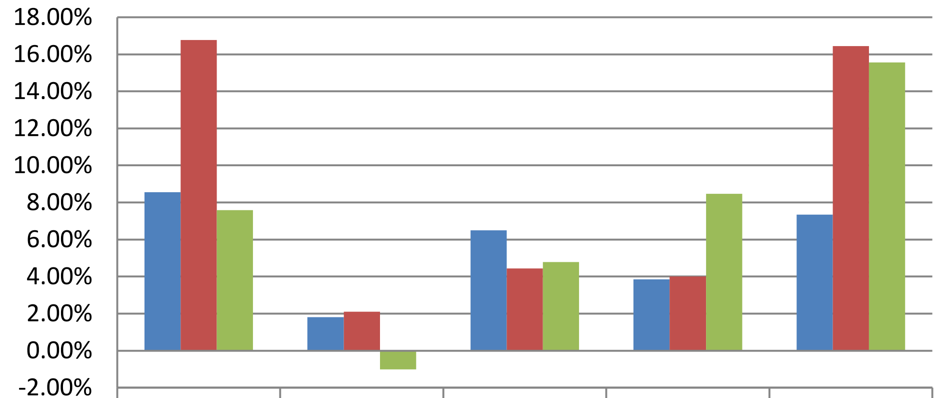
Table 7 California – Parent PLUS Loan Approval Rates for Hispanics



Texas

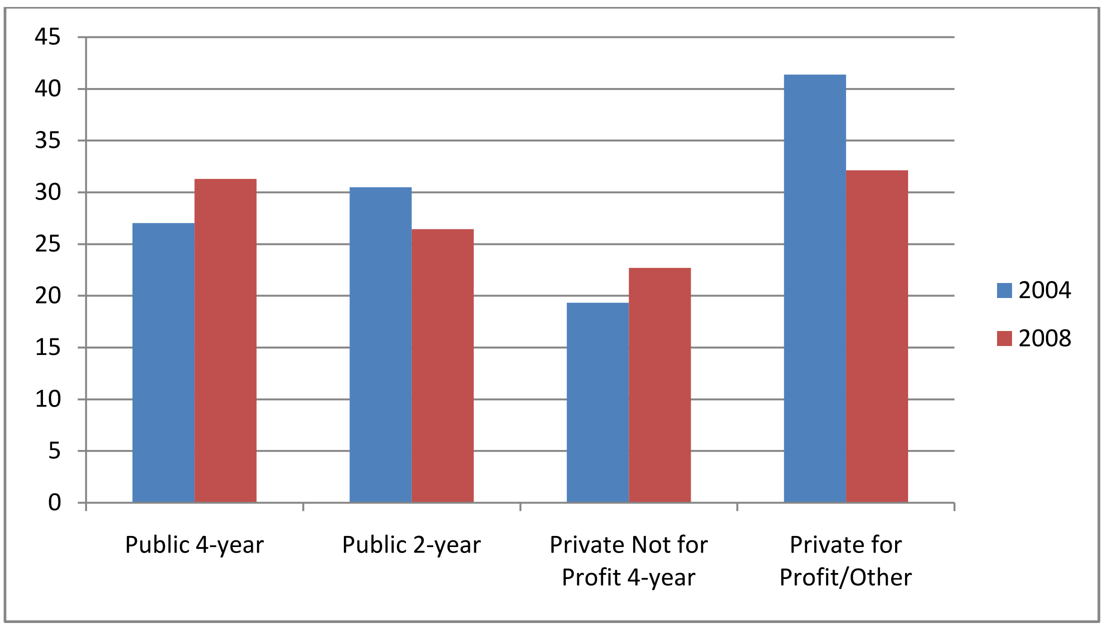
The state of Texas had a significantly high foreclosure rate for the Hispanic population. Table 8 displays that following the 2006-2007 school year, the Hispanic population has experienced a continuous increase in college enrollment. Looking deeper into the data, Table 9 shows, during the peak of the foreclosure crisis, public four-year increased the amount of Parent PLUS loans to Hispanic undergraduates. Private for profit institutions in Texas experienced a decline in Parent PLUS loans from the 2004 time period, but the 2008 numbers were still higher than all other higher education institutions.

Table 8
Change in Undergraduate & Graduate Enrollment Rates



	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
White	8.55%	1.80%	6.49%	3.84%	7.34%
African American	16.77%	2.10%	4.44%	4.01%	16.44%
Hispanic	7.58%	-1.01%	4.79%	8.46%	15.56%

Table 9 Texas – Parent PLUS Loan Approval Rates for Hispanics



Conclusion

After examining college enrollment and Parent PLUS loans approval data for the states of Georgia, Michigan, Florida, California and Texas, the findings indicate a connection between the 2007 - 2009 foreclosure crisis and college enrollment patterns for African-Americans as opposed to Hispanics. Among the top three foreclosure states for African -Americans, the authors found a downward trend in college enrollment for African-Americans during the same 2007-2009 time period. Within the Department of Education database, the authors found in general, an increase in Parent PLUS approval loans for African Americans and Hispanics who attended private for-profit institutions. The authors find these results to be of concern in light of the 2010 Government Accounting Office (GAO, 2010) study, which found for-profit higher education institutions engaged in fraudulent financial aid activities to increase college enrollment. Future longitudinal data analysis and regressions are needed to understand the impact a decline in financial wealth has on a student's enrollment and retention in college by race.

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